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Economic Results for the First Quarter of 1991

The news continues to be bleak. As a writer in *Pravda* put it when referring to the State Committee for Statistics, "If only there were just a single bright spot!" The gross national product is down eight percent and what is translated as generated national revenue is down by ten percent.

Of particular concern is the fact that output in agricultural enterprises, that is processed food, is down by 13% compared to a similar period in 1990. As a reporter in *Izvestiia* said, "It is the first time in recent years that such a level of decline has occurred." To offset this and also in anticipation of the price increase which occurred on April 2, in the second quarter, these Soviet officials have noted that reserves of food and consumer goods were depleted by over five billion rubles. In March alone they found it necessary to dig into the reserves and take out over three billion rubles worth of goods.

Much of the difficulty, of course, is due to strikes. In the first quarter of the year the number of days lost to strikes totalled 1,169,000. Most of that was divided evenly between the Ukraine and the Russian Republic and a major portion occurred in March when the miners went on strike.

Due to inflation, money incomes in the public rose by 36 billion rubles. At the same time, however, the budget revenues of the Soviet Union as a whole fell by 3/4. This, of course, is the cause of higher prices in the shops.

The Soviets also note that the sales of specific food products during the first quarter fell, thus the sale of meat, poultry, fish products, butter, cheese, vegetables, and fruit juices fell by 14-26%. In a similar fashion the quantity of potatoes that was sent to the trade network fell by 8%.

What is not known is whether or not these figures also include sales in the private or cooperative and underground networks. It is unclear whether the Soviets themselves know how inclusive these data are. In next month's report we hope to include more concrete data about production.

Soviet Foreign Trade in 1990

Soviet Foreign Trade was a source of continuing problems in 1990. For example, coal exports fell by 6%, oil exports fell by 15%, and exports of electricity fell by 8%. Cotton exports fell almost by half. One of the few export commodities that rose was natural gas. That increased 8%.

On the import side, the Soviets were able to reduce their grain imports by 14% but increased their imports of meat products by 62%. In that same effort to provide more for the market, vegetable imports rose 12% and potatoes rose 14%. Soap imports rose 5%. Reflecting the breakdown in the domestic production of pharmaceutical products, the Soviets increased their imports by 23%.

The problem seems to have continued

into 1991. The Soviets report that the overall volume of exports fell by 18% during the first quarter, which necessitated a drop of 45% in imports.

Soviet Balance of Trade with Eastern Europe for the First Nine Months of 1990

The Soviet trade balance with Eastern Europe during the first nine months of 1990 incurred a historic trade deficit. According to Soviet statistics, the trade deficit was more than 6 billion rubles. The highest it had been prior to that was slightly over 2 billion rubles and prior to 1988, the Soviets usually had a trade surplus.

The trade deficit was due almost entirely to a drop in Soviet exports. The Soviets exported less to every one of the East European members of what used to be the Council of Mutual Economic Assistance. For example exports to Poland and what was East Germany fell by over 1.3 billion rubles each. In contrast, imports were almost at the same level they had been in 1989. The main reason for the drop in exports is probably due to the fact that the Soviet Union reduced its shipments of petroleum to its former satellites. In addition it was also supposed to be charging hard currency for its exports and that probably also had an impact. As things stand now however the Soviet Union in effect is obtaining financing of its imports from the East European countries and that is bound to cause problems. As it is several of the East European countries did reduce their exports to the Soviet Union. The East Germans, Poles and Romanians exported more to the Soviet Union but the other countries apparently cut back.

This clearly is a time of stress in the relationship between the Soviets and the East Europeans.

FOREIGN EXCHANGE RATES
as of May 1, 1990
Quoted in rubles

	Official Rate	Commercial Rate
£100 Sterling	99.96	299.88
100 Aust. Sch.	4.83	14.49
100 D. Marks	33.87	101.61
100 D. Guilders	29.92	89.76
100 U.S. Dollars	59.98	179.94
100 Fr. Francs	10.07	30.21
1,000 Jap. ¥	4.33	12.99
10,000 It. Lire	4.57	13.71
100 Swiss Frs.	40.42	121.26
100 Nor. Kroner	8.67	26.01
1,000 Bel. Frs.	16.43	49.29
100 Sw. Kronor	9.50	28.50

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SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE 1ST NINE MONTHS OF 1982-1990

(in million rubles)

	Exports from U.S.S.R.									Imports to U.S.S.R.								
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1982	1983	1984	1985	1986	1987	1988	1989	1990
Bulgaria	3546	4141	4661	4788	4842	4644	4604	4327	4209	3245	3720	4122	4425	4442	4856	4885	5103	4753
Czecho-slovakia	3728	4270	4948	5002	5116	5032	4711	4583	3784	3513	4018	4422	4806	4778	5035	5039	4890	4525
GDR	4587	4992	5385	5619	5852	5582	5173	4859	3480	4270	4879	5576	5619	5228	5173	5168	5277	5887
Hungary	2711	2951	3298	3318	3486	3398	3265	3016	2667	2710	2957	3178	3513	3600	3766	3598	3701	3151
Poland	3581	3868	4450	4804	5091	4778	4592	4301	3086	2882	3485	3843	3960	4316	4355	4936	5204	5660
Romania	1013	1199	1352	1351	2062	1819	1766	1967	1918	1323	1280	1340	1657	1859	1729	1771	1085	1294
	19166	21421	24094	24882	26449	25253	24111	23053	19144	17933	20339	22481	23980	24223	24914	25397	25260	25270
Balance of Trade	+1283	+1082	+1613	+902	+2226	+339	-1286	-2207	-6126									

Soviets go for tax reform

By Alan Abouchar

For The Financial Post

BATTLES between titans make better copy than taxes, bookkeeping rules, and banking structure. And so much of the world's attention is focused on the personal conflict between Mikhail Gorbachev and Boris Yeltsin, even while many positive changes are taking place in the Soviet Union on a more prosaic plane.

One important area of change is the nation's tax structure, where the most recent innovation is a sales tax. The design, coverage, and revenue allocation are all thoroughly credible and have implications beyond the simple objective of raising revenue for the national budget.

First, although called a sales tax, it is actually a value-added tax — that is, a tax imposed only on the value created at each stage of production rather than a cumulative levy. The 5% imposed for material inputs into production is subtracted from the 5% due on the sales revenue of the retailer. This is the tax principle favored in most industrialized economies in the West.

Next, the tax revenues are to be distributed 70%-30% between the republics and the federal government. This is, apparently, by presidential decree rather than a part of the regulations adopted by the Council of Ministers. As such, it reflects Gorbachev's strong commitment to political and economic decentralization while he is still trying to keep the republics together.

Finally, the tax is imposed at the same rate on all goods and services, but with concern not to overburden low-income groups. Again this follows a long, albeit increasingly dying, Western tradition.

Thus, final food processing in restaurants is exempt from the tax (as are low-priced meals in many Canadian provinces and American states). Urban public transit, most entertainment and health-care products are also exempt, and there is partial exclusion of grain products — although the latter is insignificant compared with the recent 200% increases on retail bread prices. There is no tax on products produced for export.

ALAN ABOUCHAR *is professor of economics at the University of Toronto, and visiting scholar at the Harvard Russian Research Centre*

A tax of 5% will not eliminate the total republic and federal budgetary deficits, although it may permit a deficit reduction of 10%-15%. It is rather the flexibility and willingness to adapt that must be commended.

The new overall tax and income philosophy is also reflected in recent personal income tax rules. These recognize the possibility of very large earnings which may occur under the new business organization and ownership rules.

There is now a progressive rate that rises to a maximum of 60% at an annual income of 36,000 rubles — which is about 15 times the recent average annual wage. The previous progressive rate was designed to bear more heavily on independent income earners. The change demonstrates expectations about entrepreneurial potential while ensuring some limited degree of income re-distribution.

Serious dislocation

The new sales tax is not intended to replace the existing (hidden) turnover tax whose incidence has fallen overwhelmingly on consumer goods. This tax is so interwoven into the fabric of Soviet life that it would probably be impossible to revoke it without serious dislocation and extensive administrative supervision. For example, since it is levied at the wholesale stage, there could be no guarantee that eliminating it would lead manufacturers to reduce prices, a concern voiced in Canada when the manufacturers' sales tax was replaced by the goods and services tax.

On the other hand, the turnover tax is losing its importance as a source of budget revenue, falling from more than half of government revenue in earlier years to little more than a quarter in 1989.

Taxes are only one of the many areas where beneficial change is taking place in the Soviet Union, but largely unnoticed in the West. Accounting rules for costs and prices are being codified, banking is being modified along Western central and commercial bank lines, new property tax laws are being introduced.

The changes are being designed and executed by Soviet practitioners themselves, demonstrating a clear and not always recognized ability in this field. It would be tragic if the Soviet people neglected these positive efforts because of extensive focus on personality clashes between political leaders, or the deprecatory comments of foreign observers.